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Backgrounder

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WHAT MANILA AND WASHINGTON CAN DO TO SAVE THE PHILIPPINE ECONOMY

INTRODUCTION

While the noncommunist countries of Southeast Asia prosper, the Philippine economy is poor and falling deeper in debt. Today over half of Philippine households earn less than their country's official poverty level of $540 a year, and Manila's $28.2 billion foreign debt requires payments that use 44 percent of the Philippine national budget. These problems are not being addressed adequately by Philippine President Corazon Aquino. While she deserves credit for restoring her country's democratic process, she has not done enough to foster economic growth. She has not resisted calls for trade protectionism nor sufficiently removed restrictions on economic activity.

The Aquino government has enjoyed strong bipartisan support in the United States and has received about $1 billion in U.S. economic assistance since she succeeded Ferdinand Marcos as President in 1986. Washington must now press Aquino to adopt policy reforms that will accelerate economic growth. The long-term health of Philippine democracy depends on it.

Growth Under Aquino. Until the late 1970s, Philippine economic performance matched neighboring Republic of China on Taiwan and South Korea. Then years of mismanagement and corruption by the Marcos regime, plus external pressures like a drop in prices of major agricultural exports, slowed the economy significantly. For 1984 and 1985, in fact, Philippine gross national product fell a total of 9.5 percent. Aquino has begun reversing this; the economy last year grew about 6.5 percent. This is due largely to Aquino's early commitment to such free market policies as the abolition of the agricultural monopolies imposed by Marcos. This increased rural incomes, fueling greater consumption and general economic growth.

Fading Commitment. In recent months, however, Manila's commitment to free market policies has faded. The Philippine Senate, for example, is considering a law that would eliminate foreign patent rights on pharmaceuticals, an infringement on intellectual property. An early commitment to privatize over 200 government-owned companies fizzled after encountering political opposition. Last summer's land reform law forced large corporate farmers to delay investments that could create jobs. A program to trade portions of Manila's debt for equity investments was effectively suspended in 1987. Remaining monopolies, like some inter-island shipping lines, meanwhile have been raising prices. Making matters worse, Manila's excessive central government control prevents provincial officials from pursuing rural infrastructure development.

The deteriorating economy apparently has enabled the communist insurgency to make important gains. The specter of a communist victory in the Philippines has spurred Washington to mobilize an international effort to aid the Philippine economy. The result is the proposed $5 billion to $10 billion Multilateral Aid Initiative (MAI).

Valuable Opportunity. Though MAI plans are not yet final, it will include contributions from the U.S. and Japan, plus major participation from private institutions like the World Bank and the Asian Development Bank and from West European nations. The fiscal 1990 United States budget now earmarks $200 million for the MAI. This will be wasted money, however, if it merely supports those Aquino policies that stifle economic growth. There is already $3.9 billion in aid committed to Manila that Manila has not used.

Washington should view the MAI negotiations as a valuable opportunity to link aid to reforms promoting free market growth. These reforms should include:

♦ ♦ A timetable for dismantling monopolies, privatizing state-owned companies, and eliminating trade restrictions.

♦ ♦ A revision of the Aquino land reform plan so that efficient agribusinesses will not be forced to shut down.

♦ ♦ A reduction in central government control over administration of rural development funds.

♦ ♦ An increase in the amount of annual debt-equity swaps that would relieve foreign debt.

In addition, Washington should propose establishing a U.S.-Philippine commission to explore the possibility of a comprehensive free trade agreement to boost trade between the two nations.

THE PHILIPPINE ECONOMIC SITUATION

In 1987, the Philippine economy began to grow for the first time since 1980.[1] Industry boosted output 9.9 percent, with strong increases in mineral mining, construction, and manufacturing. This boom, however, seems to have been sparked by high government spending for infrastructure projects like roads and a policy to lower interest rates. Increases in private sector spending appear to have been mainly in building investment.

Domestic and foreign investor confidence fell, moreover, in mid-1987 because of the political uncertainties following the unsuccessful military coup against Aquino in August. Worrying investors too were the increased attacks by the Communist Party of the Philippines' New People's Army (NPA); for the first time it struck economic targets like major bridges. Nevertheless, construction investment spending picked up by year's end, leading economic growth to a 5.7 percent rate for 1987. Last year, gross national product increased 6.7 percent, with construction expanding 11.8 percent, the industrial sector expanding 8.9 percent, services rising 7.1 percent. However, agriculture, forestry, and fishing, which employ most of the workforce, rose only 3.4 percent. Personal consumption expanded 5.1 percent.[2]

Unemployment and Underemployment. GNP growth is expected to be 6.5 percent this year.[3] Inflation is expected to top 10 percent, which is low compared to other high-debt countries like Brazil. But there is also bad news. About 10 percent of the 23.5 million Philippine work force is expected to remain unemployed this year; another 30 percent will be underemployed, working only part-time. A lack of domestic jobs forces about 400,000 Filipinos to work overseas. The Philippine work force receives about 750,000 new entrants each year.

Per capita annual income is less than \$700. This compares to \$530 for Indonesia, \$1,600 in Malaysia, \$2,800 in South Korea, and \$4,900 on Taiwan. Philippine rural areas lack adequate roads to bring produce to markets. Education standards are falling because not enough schools are being built to keep up with the high 2.2 percent annual growth in the 58 million population. Lack of opportunity in rural areas is forcing a migration to urban areas which is straining the resources of major cities like Manila. There are frequent electric power shortages in Manila, and both telephone communication and inter-island transport are inadequate. Malnutrition exists in some areas, such as the island of Negros. These conditions are exploited by the Communist Party of the Philippines to increase its appeal.

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1 In 1980, the GNP in 1972 prices rose 4.9 percent. See National Economic Development Authority (NEDA), *1985 Economic and Social Indicators* (Manila: National Economic and Development Authority, 1986), p. 23.

2 "Philippine Economy Posted Growth of 6.69% During 1988," *Asian Wall Street Journal Weekly*, January 2, 1989, p. 2.

3 "Economist Optimistic About Growth Target," AFP, Hong Kong, December 14, 1988, in *FBIS — East Asia*, December 14, 1988, p. 51.

MANILA'S FADING FREE MARKET STRATEGY

Opposition to Marcos's economic policies, such as the monopolies he gave to political cronies and the destruction of the companies of his political opponents, helped fuel the political movement that toppled him in February 1986 and brought Aquino to power. Her first Finance Minister, Jaime Ongpin, advocated an economic strategy based on free market policies and designed to decentralize government controls and spur economic growth. He also initially opposed a land reform law, instead preferring to increase rural employment. Ongpin worked to reduce government intervention in the market. The creation of Manila's Asset Privatization Trust was largely Ongpin's doing. The Trust was designed to privatize hundreds of government-owned companies. Ongpin also pushed to eliminate trade barriers and set up a debt-equity swap program to relieve Manila's massive foreign debt, now at $28.2 billion.

Ongpin resigned in September 1987 in the cabinet shuffle following the August coup attempt. He committed suicide the following December. No other cabinet secretary has matched his free market commitment.[4] Cabinet secretaries now seek to defend their parochial economic interests and some, like Secretary of Health Alfredo Bengzon, advocate protectionist policies that deter foreign investors.

Exceeding Marcos's Deficit. The Philippine budget deficit exceeded $1 billion in 1987, rose to $1.05 billion in 1988 and is expected to climb to $1.09 billion this year. It was $592 million in 1985, the last year of Marcos's rule. Government spending for constructing buildings and roads has encouraged some private sector construction, but this mini-boom is based on continued borrowing and cannot guarantee sufficient private investment to sustain economic growth. Manila will also need to attact new foreign investment. Last year, foreign investment increased, but it has come mainly from the Republic of China and Hong Kong. Larger potential investors from Europe and the U.S. remain deterred, raising doubts that Philippine economic growth can be sustained.[5]

OBSTACLES TO ECONOMIC GROWTH

While Aquino ostensibly remains committed to pursuing economic growth, her government impedes it in many ways. Among them:

4 Claudia Rosett, "Crucial Philippine Policies May Die with Ongpin," *The Wall Street Journal*, December 14, 1987, p. 25; Jose Galang, "Ambiguous directions," *Far Eastern Economic Review*, February 11, 1988, p. 49.
5 Keith Richburg, "New Philippine Prosperity: Are Figures Only an Illusion?" *The Washington Post*, August 18, 1988, p. B1.

Monopolies

Marcos's formula for amassing political power was to give political allies control of such monopolies as the National Sugar Trading Corporation, which controlled the sugar industry, and the Philippine Coconut Authority, which controlled the coconut industry.[6] They fixed prices and used their huge earnings to fund Marcos's political interests and amass personal fortunes.[7] While the sugar, coconut, and other Marcos-created monopolies have been dismantled, still others remain. For example, a monopoly on an inter-island shipping route makes the price of shipping grain from the southern Philippine island of Mindanao more expensive than shipping grain from California to Manila.[8] The National Power Corporation is the sole generator and transmitter of electrical power in the Philippines. The Philippine Long Distance Telephone Authority has a pre-Marcos monopoly on telephone service. Both phone and electrical service, predictably, are poor and surely would be improved if both companies faced real competition.

Debt-Equity Swap Restrictions

To her credit, Aquino has resisted great political pressures to limit payments or default on some of Manila's $28.2 billion external debt. Instead, she twice has arranged to reschedule payments. About 54 percent is owed to commercial banks ($4.2 billion to U.S. banks), 18 percent to such multilateral institutions as the World Bank and Asian Development Bank, and 16 percent to foreign government creditors ($1.1 billion to the U.S. government). The remainder of the debt is in "suppliers credits," extended by companies to facilitate trade. About 44 percent of the Philippine budget services this debt.[9] Much of this money could be used better for development projects.

One way to trim the debt would be to give creditors the opportunity to obtain equity in Philippine enterprises as payment for the debt. This is known as a debt for equity swap plan. Three years ago, Manila began such swaps. The problem is that last year it placed an annual cap of $180 million on debt that could be swapped out of total debt owed by the government's Central Bank. Manila placed further limits on the plan by limiting equity investments to new investments and investments involving labor intensive industries.[10] Private sector debt conversions are limited by availability of Philippine pesos. Manila reasons that increasing debt-equity swaps will increase inflation. But such countries as Chile have demonstrated that debt-equity swaps need not be inflationary if, for example, the debt is sold as bonds, and not converted to

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6 Gary Hawes, *The Philippine State and the Marcos Regime: The Politics of Export* (Ithaca, New York: Cornell University Press, 1987), p. 11.

7 *Ibid.*, pp. 136-137.

8 Claudia Rosett, "The Philippines Dangerous Land Reform," *The Wall Street Journal*, April 13, 1987, p. 23.

9 "Debt Comes First," *Asiaweek*, August 5, 1988, p. 48.

10 Testimony by James H. Fall, III, Acting Deputy Assistant Secretary For Developing Nations, Department of the Treasury, Before the House Foreign Affairs Subcommittee on Asian and Pacific Affairs, March 7, 1989, p. 8.

currency, and the swap program is linked to privatization of government-owned corporations.

Slow Privatization

Between 1972 and 1984, the number of government-owned and controlled corporations (GOCCs) had multiplied from 23 to 243 (94 parent companies and 149 subsidiaries). These state-owned firms apparently required aggregate government funding of around $ 3.1 billion for ten years from 1975 to 1984.[11] In 1988 Manila allocated $669.9 million to these state enterprises.[12] Former Finance Minister Ongpin wanted to sell most of these companies, and Aquino formed the Asset Privatization Trust to do so. But progress on this has been embarrassingly slow. While the government has appoved the sale of 130 GOCCs, so far only nine have been sold. High prestige GOCCs like Philippine Airlines and the Philippine National Oil Company are not being offered for sale.

Opposition to the sale of many government-owned companies is politically motivated. After taking power, Aquino rewarded political allies with directorships and board of trustee positions in many of these companies. These new "businessmen" often oppose the sale of their corporations because they would lose their well-paying jobs.[13]

In addition, the government controls 247 formerly private companies nationalized by Marcos after they defaulted on government-guaranteed loans. Aquino has so far sold 104 companies in this category. But frustration over the pace of progress of privatization has led three out of five trustees of the Asset Privatization Trust to resign.

Land Reform

Though the agricultural sector only generates about 27 percent of gross national income for the Philippines, it employs around 45 percent of the 23.5 million labor force.[14] The government was initially skeptical about land reform, but it bowed to intense political pressure, mainly from leftists and the powerful Catholic Church. Aquino submitted a land reform bill in July 1987 and approved the compromise version passed by the Philippine Congress last June.[15] This Comprehensive Agrarian Reform Law (CARL) will redistribute about 6.9 million acres in the next decade. Unused government-owned lands will be distributed first, followed by private holdings over 123.5 acres. Next would come plots of 123.5 acres and less. The goal is to limit landowners to no more than 12.4 acres, plus 7.4 acres for each child over 15 years working that land.

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11 Jose Galang, "Still on the Block," *Far Eastern Economic Review*, November 5, 1987, p. 84.

12 James Clad, "Manila's hardy privateers," *Far Eastern Economic Review*, July 7, 1988, p. 88.

13 *Ibid.*, p. 90.

14 Bureau of Agricultural Statistics, Department of Agriculture, *Development Indicators in Philippine Agriculture, 1987* (Manila: Department of Agriculture, 1988), p. 15.

15 Matt Miller, "Land Reform Clears Congress In Philippines," *The Wall Street Journal*, June 9, 1988, p. 27.

Forcing Out Foreign Businesses. After strong protest, the government has delayed the break-up of large commercial farms until 1998, but has required them to give 3 percent of revenues and 10 percent of profits to their workers. These farms are efficient producers and a major source of exports. Plantations on the southern island of Mindanao, for example, account for 45 percent of national agricultural production. Doubts over the eventual status of these farms under the CARL are already forcing owners to delay farm expansion plans that might employ more Filipinos. Some of the largest foreign-owned agribusinesses, such as Dole Fruit Company and Del Monte Corporation, are considering leaving the Philippines.[16]

The Philippine land reform plan has other serious problems. Cost estimates for the CARL run from $2.4 billion to $7.2 billion. It will create a large government bureaucracy that will control the economic destiny of many farmers. In addition, the law does not appear to allow for the varied requirements for raising crops in differing locations of the Philippines. For example, in Negros Occidental Province, where sugar predominates, farms of less than 123.5 acres may be too small; most Negros sugar farms are at least 123.5 acres. If these farms are divided, the rural middle-class that runs them may simply leave Negros. Uneducated peasants will not be able to run the farms, perhaps leading to a collapse of the local economy. This will help the communists, already powerful in Negros.

Manila's reasons for pursuing land reform have more to do with domestic politics than with sound economics. Former Finance Minister Ongpin's initial reluctance to proceed with land reform may prove correct, if large corporate farmers are forced to leave the Philippines and talented rural middle class farmers sell out, leaving the rural economy without adequate farming talent.

Protectionism

Marcos regulated foreign trade heavily to protect domestic industries and his political allies. By the end of last year, Aquino had lifted nontariff barriers such as import licensing requirements on about 1,200 items. However, some items, which had been relieved of nontariff barriers, such as garments and textiles, now have had their tariffs increased. While Manila wants to promote foreign investment and trade, some top government officials have been openly hostile toward opening up domestic markets. Trade and Industry Secretary Jose Concepcion has campaigned against reduction of Philippine trade barriers "because it would hurt local import-substituting industries."[17] But as the experience of such countries as Mexico demonstrates, protecting import-substitution industries increases foreign borrowing and diverts resources from more efficient sectors of the economy. Less efficient Philippine companies that do not face foreign competition will lose export opportunities.

An example of Philippine import substituting policy is Manila's requirement that Philippine-produced coconut-based chemicals be used for

16 Jose Galang, "Doubtful harvest," *Far Eastern Economic Review*, February 23, 1989, p. 64.
17 Jose Galang, "Ambiguous Directions," *Far Eastern Economic Review*, February 11, 1988, p. 49.

the local manufacture of soaps and detergents, rather than allowing those firms to import and use cheaper alkylbenzene, derived from imported oil. This policy was first promulgated in 1983 by Marcos to benefit a major political ally. Aquino has retained this economically damaging measure because of pressure from domestic coconut oil producers.[18] Coconut production is a major Philippine industry, employing about 3.4 million workers. But with the rising price of coconut oil, local soap manufacturers may have to spend an extra $25 million a year. This added cost will be passed on to Philippine consumers.

Threats to Intellectual Property Rights

New Philippine legislation has created an environment hostile to intellectual property rights. Last September, the Philippine Congress passed legislation requiring all pharmaceutical manufacturers to sell generic drugs. Both Philippine and foreign-owned drug manufacturers oppose the law because it would eliminate the sales advantage of brand name drugs. Many of these companies have spent up to $10 million to research drugs they must now sell as generics. Doctors, moreover, are more assured of the quality of brand name pharmaceuticals, the price of which will rise as they become less available. Thus, poorer Filipinos will be less able to afford quality health care.

This legislation was championed by Health Secretary Alfredo Bengzon, who charges foreign drug companies have taken "unconscionable profits" from the Philippine market.[19] Bengzon wants to promote Philippine self-sufficiency in pharmaceuticals. What he ignores is that Philippine drug manufacturers import 90 percent of their raw materials. Bengzon, moreover, is known for his leftist, anti-Western attitudes; these may be the main reason he is attacking products made by U.S. and European drug companies. About 40 percent of the foreign pharmaceutical companies that operate in the Philippines are American.

The Philippine Senate now is debating a bill that would abolish foreign patents on research-based pharmaceuticals. An economic climate hostile to intellectual property rights will deter other foreign investors that might generate more jobs.

Corruption

Corruption in government and society is now perhaps worse than during the Marcos period. Graft penetrates all levels of society.[20] For example, some Philippine congressmen are believed to pass out envelopes with 10,000 pesos ($500) every month to their favorite reporters, apparently in return for favorable stories. Police stop a colonel on a downtown Manila street; they salute briskly and wave him on — after he hands over some cash.

Another example of corruption has been what has happened to the Philippine Commission on Good Government (PCGG). Created in 1986,

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18 Jose Galang, "Coconut Conversions," *Far Eastern Economic Review*, December 3, 1987, p. 103.
19 Rodney Tasker, "Manila's bitter pill," *Far Eastern Economic Review*, December 18, 1988, p. 54.
20 Phil Bronstein, "Horror Stories About Corruption," *San Francisco Examiner*, June 26, 1988, p. A 12.

hours after Aquino came to power, it was given broad powers to find and return to the Philippine people money and other assets believed to have been stolen by Marcos. Yet, instead of recovering stolen assets, the PCGG has contributed to corruption by blackmailing businessmen and contributing to the political careers of PCGG officials. To assist its investigations, it has taken control of about 300 companies suspected of having profited from Marcos.[21] Mere threat of PCGG investigation of a company's connection to Marcos was enough to make a company submit to hostile takeover by those with allies in the PCGG in order to avoid investigation. Senate Opposition leader Juan Ponce Enrile has accused Aquino's brother-in-law, Ricardo Lopa, of acquiring 36 PCGG-controlled companies at bargain prices through his political connections.[22] Former PCGG head and now Senate Majority Leader Jovito Salonga is alleged to have used PCGG powers to put politically loyal managers in many radio stations.[23] This later helped his 1987 Senate Campaign.

Inefficiency

Manila's bureaucratic inefficiency impedes economic growth. Typifying the inefficiency is that some $3.9 billion in foreign loans and aid committed to the Philippines remains unused. This money languishes because Manila's dense bureaucracy cannot spend it fast enough on projects for which it is intended.

Local officials often face delays of up to a year before several layers of bureaucracy can approve funds for development projects. Poverty-stricken Negros Occidental Province has succeeded in having Manila grant it direct control over funds allocated through all government departments. But Negros is an exception. Resentment over Manila's power in the southern island of Mindanao has prompted an independence movement that advocates secession.

Entrepreneurial Success Story. Dynamic entrepreneurship and family-based economic activity are widespread in the Philippines, but they will not be unleashed until the government removes the obstacles to economic development. Typical of what could happen is the island of Cebu, in the central Philippines.[24] An industrious Chinese business community, plus a pro-business political leadership, helped Cebu achieve a 7.4 percent growth rate in 1987. Growth rate estimates for 1988 were 12 percent. Cebu's growth is led by exports, which increased 56 percent in the first half of 1988 compared to the first half of 1987.[25] The island's success is also due to its independence from Manila, signing separate agreements with foreign governments and allowing many business to flourish untaxed. Cebu's Chinese business community is able to attract investors in Hong Kong and Taiwan. It

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21 "Searching Out the 'Bad Eggs,'" *Asiaweek*, September 16, 1988, p. 35.

22 *Ibid.*

23 John Peterman, "Battle for Broadcasting." *Far Eastern Economic Review*, September 17, 1987, p. 26.

24 Mary Walsh Williams, "Unleashed and Untaxed, Entrepreneurs Make Cebu the Philippines' Boom Town," *The Wall Street Journal*, August 10, 1988, p. 13.

25 James Clad, "Cebu sets the pace," *Far Eastern Economic Review*," November 10, 1988, p. 82.

also has a special export processing zone that gives foreign investors duty-free equipment import privilages and is close to air and sea shipping ports.

U.S. ECONOMIC AID TO THE PHILIPPINES

Although primary responsibility for economic development of the Philippines rests with the Filipinos and their government, the U.S. and other major aid donors, like Japan, can press the Philippines to create incentives for investment and private economic activity. In 1986, the Reagan Administration rushed to support Aquino in the expectation that she would pursue political and economic reforms that would lead to economic recovery and a defeat of the communist insurgency. Washington pledged to give Manila $900 million in aid between 1983 and 1988, as part of the Military Bases Agreement. After Aquino's victory, Washington added $150 million in emergency aid to the fiscal 1986 aid package. When Aquino visited the U.S. in September 1986, Congress voted an additional $200 million for Philippine aid in fiscal 1987. Total U.S. aid for 1983 to 1988 was over $1.7 billion.

Critical Military Bases. In October 1988, Manila and Washington reached agreement on a total compensation package of $962 million for 1990 and 1991, the last two years of the current Military Bases Agreement (MBA) governing U.S. access to Subic Naval Base and Clark Air Base. The U.S. regards continued access to these bases are critical to fulfilling military commitments to friends and allies in Asia. Of the total $962 million, $562 million will go for economic assistance and $400 for military aid.[26] After much pressure from congressional Democrats, the U.S. fiscal 1988 budget included $50 million to support Manila's land reform plan.

As part of the final Military Bases Agreement review concluded last October, Manila also convinced Washington to agree to a complicated swap in which Philippine debt would be exchanged for U.S. Treasury Bonds. The U.S. also promised to allowed greater access for Philippine products to U.S. markets. The U.S. has already increased Manila's quota for textile exports to the U.S.

U.S. Aid Commitment. Ronald Reagan and George Bush have committed Washington to contribute to a multinational economic aid plan to help the Philippine economy, called the Multilateral Aid Initiative (MAI). Bush's fiscal 1990 budget requests $200 million for this plan; this is in addition to the new aid agreed to in October. The MAI may amount to $5 billion to $10 billion over five years, but the details of who will donate, and how much, have yet to be settled. The U.S. contribution could be as much as $1 billion, and Japan will donate at least that amount. Tokyo is already Manila's largest economic aid donor; last December it committed over $740 million in new loans for Manila.[27] West European countries, multilateral institutions like the

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26 Nayan Chanda, "Buying a breathing space," *Far Eastern Economic Review*, October 27, 1988, p. 14.
27 Sumio Kido, "Japan aid buoying Philippines," *Japan Economic Journal*, December 10, 1988, p. 1.

World Bank, and private banks also will be major contributors to the MAI. U.S. and Japanese officials have met with the Philippine coordinator for the MAI. So far, the sides have agreed that each donor will administer its share of the MAI.

Promoting Private Sector Reforms. The MAI, however, could be disastrous if it props up Manila's policies that thwart investment and growth. Washington and the other major donors thus should negotiate with the Manila for guarantees that the economic aid will be used to promote reforms that unleash the private sector. U.S. officials already have indicated that the MAI will be linked to policy reforms. The Administration also proposes that MAI funds be appropriated on a "no year" basis to allow disbursal contingent upon Philippine reforms.[28] Washington and other major MAI donors should require that:

♦ ♦ Manila provide a timetable for the dismantling of monopolies like inter-island route shipping lines, the National Power Company, and the national phone company.

♦ ♦ Manila provide a timetable for selling at least half of the current asset value of state-owned and -regulated companies to the private sector. This would reduce the burden these companies place on the Philippine budget and would generate tax revenues to fund needed infrastructure development.

♦ ♦ Manila agree to a large increase beyond the current limit of $180 million for debt-equity swaps. This will help Manila ease the burden of its $28.2 billion foreign debt, which will require $5.3 billion in payments this year. To meet its concerns that the swaps would fuel inflation, Manila should link increased swaps to privatization so Manila's debt would be used to buy burdensome government-owned companies.

♦ ♦ Manila continue to reduce trade barriers. While Manila has reduced many nontariff barriers, these must not be replaced by tariffs. Laws that now threaten intellectual property rights, such as the recent generic drug bill, must be reversed. Manila must also be told that laws designed to protect domestic industries, such as those requiring use of coconut-based chemicals, will deter foreign investment.

♦ ♦ Manila revise its land reform law so that it does not penalize larger, more efficient corporate farmers and force them to move to other countries, thereby increasing rural unemployment.

♦ ♦ Manila provide assurances it will decentralize control of development fund administration to allow for quicker implementation of development projects. This will lead to quicker disbursal of foreign aid, and give provincial leaders more flexibility in meeting local development needs.

The Bush Administration should tell Manila that while the MAI and the future of the U.S. military bases in the Philippines are not linked, securing

28 Statement of David Lambertson, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, before the House Foreign Affairs Committee, Subcommittee on East Asia and Pacific, March 7, 1989, pp. 23, 27.

U.S. congressional support for future MAI donations will be more difficult if Manila decides to end U.S. use of the bases after 1991.

Exploring Increased Trade. Instead of increasing U.S. economic assistance to Manila after 1991, Washington should explore ways to reduce Philippine dependence on foreign aid by increasing U.S.-Philippine trade. The U.S. already is Manila's largest trading partner. An agreement as part of last October's military base negotiations to expand Philippine exports to the U.S. is a step in the right direction. The Bush Administration should propose creating a U.S.-Philippine Commission to explore the possibility of a free trade agreement to increase trade between the two countries.

Washington should not fund Manila's land reform plan. It is already deterring investments by large corporate farms that could create more jobs. Instead, Washington should direct its economic assistance to improving rural roads and to funding projects that increase rural employment.

CONCLUSION

Unless Corazon Aquino proves her commitment to reducing government control of the economy and strengthening the private sector, more U.S. economic aid will not solve the Philippines' problems. The U.S. and other countries have a strategic interest in Philippine economic success, for only that will insure Philippine political freedom. The U.S. and the major donors to the Multilateral Aid Initiative should link this aid to policy reforms that promote economic growth. Then Washington should begin to explore ways to reduce Philippine dependence on foreign aid. One alternative that Washington and Manila should explore is a free trade agreement.

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